



Russia Could Push Oil Beyond \$100: Here's What to Do

Description

5% of the world's total oil reserves are in Russia. That makes the country the eighth-largest supplier of an essential commodity that is already in tight supply. Now, Russia's moves on the border with Ukraine could tighten supply further.

Here's how this geopolitical crisis could impact you and what you can do to protect your portfolio.

Russia's strategy

Despite the magnitude of the conflict, little is known about Russia's intentions or long-term strategy in the region. In fact, some experts believe that the only way to understand the full strategy is to be in the mind of Vladimir Putin.

What we do know is that Russia's oil and gas reserves could be used as a bargaining chip. Russian energy powers much of Western Europe, including economic giants like Germany and France. Sanctions and armed conflict could lower the supply and boost the price of these essential commodities.

A barrel of oil is already trading near seven-year highs. Some predict the price could surge far beyond \$100. That's devastating for most of the economy and capital markets but a boon for energy suppliers.

Oil stocks

ARC Resources ([TSX:ARX](#)) is one of the companies that has benefited from the easing of COVID-19 restrictions and an uptick in oil and gas demand. The tailwinds could be magnified by the ongoing conflict in Eastern Europe.

After a 90% rally in 2021, the stock is already up by more than 20% this year. That means it outperformed the overall market. ARC's diverse mix of commodities, including natural gas, crude oil, and condensate makes it a robust bet on the energy crisis.

The company has just posted solid 4Q 2021 results with net income soaring to \$678 million, or \$0.96 a share, from \$121 million, or \$0.34 a share, the previous year same quarter. Oil production in the quarter surged to 345,831 barrels, resulting in \$459 million of free cash flows.

Growing funds from operations

ARC Resources returns over half of the funds from operations to shareholders. Last year, it generated \$2.16 per share in funds flow per share — a new record high. Currently, ARC Resources is generating 20% plus in free cash flow yield.

Amid the solid financial results and underlying fundamentals, ARC Resources is still trading at a discount with a price-to-earnings multiple of seven. [A dividend yield of 2.7%](#) hides this company's true capacity to reward long-term shareholders.

That said, ARC Resources is a smart play on the risk/reward front for any investor eyeing exposure in the booming energy sector. A fair valuation and growing funds from operations make the stock a solid pick for the long haul.

Bottom line

Russia's strategy in Eastern Europe is volatile and opaque. However, we can already see its impact on oil prices. If this trend continues, investors may want to consider some exposure to energy stocks like ARC Resources.

CATEGORY

1. Energy Stocks
2. Investing

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